

ORDER NO. 5299

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Michael Kubayanda, Vice Chairman;
Mark Acton;
Ann C. Fisher; and
Ashley E. Poling

Periodic Reporting
(Proposal Eight)

Docket No. RM2019-14

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL EIGHT)

(Issued November 12, 2019)

I. INTRODUCTION

On September 18, 2019, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to periodic reports.¹ Proposal Eight relates to modifications to the Parcel Select/Parcel Return Service (PRS) mail processing and transportation cost models. For the reasons discussed below, the Commission approves Proposal Eight.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Eight), September 18, 2019 (Petition). The Postal Service filed a notice of filing of non-public materials relating to Proposal Eight. See Notice of Filing of USPS-RM2019-14/NP1 and Application for Nonpublic Treatment, September 18, 2019.

II. PROCEDURAL HISTORY

On September 19, 2019, the Commission issued a notice establishing this proceeding, inviting comments on Proposal Eight, and appointing a Public Representative.² To clarify the Postal Service's Petition, Chairman's Information Request No. 1 and Chairman's Information Request No. 2 were issued on October 2, 2019, and October 23, 2019, respectively.³ The Postal Service responded to CHIR No. 1 and CHIR No. 2 on October 8, 2019, and October 29, 2019, respectively.⁴

III. BACKGROUND

Proposal Eight concerns modifications to the Parcel Select/PRS mail processing and transportation cost models. The proposed modifications to the mail processing cost model stem from two observations the Postal Service made during the preparation of materials for Docket No. ACR2017. Petition, Proposal Eight at 1. First, a Parcel Select mail flow was missing from the cost model. *Id.* Second, the existing cost model did not reflect new PRS processing methods for return delivery unit (RDU) and return sectional center facility (RSCF) mailpieces. *Id.*

The proposed modifications to the transportation cost model involve incorporating Parcel Select Lightweight (PSLW) mailpieces. *Id.* Prior to being classified as a competitive product, PSLW volume was part of Marketing Mail parcels and transportation costs estimates for that mail were included in the cost model presented most recently in Docket No. ACR2018. *Id.* There have been no PSLW transportation

² Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Eight), September 19, 2019 (Order No. 5238).

³ Chairman's Information Request No. 1 and Notice of Filing Under Seal, October 2, 2019 (CHIR No. 1); Chairman's Information Request No. 2 and Notice of Filing Under Seal, October 23, 2019 (CHIR No. 2).

⁴ Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, October 8, 2019 (Response to CHIR No. 1); Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 2, October 29, 2019 (Response to CHIR No. 2).

cost estimates presented in Annual Compliance Report (ACR) dockets since PSLW was reclassified as a competitive product. *Id.*

IV. PROPOSAL EIGHT

Proposal Eight intends to improve the Parcel Select/PRS mail processing and transportation cost models. Petition at 1.

Mail processing cost model. The Postal Service proposes two modifications to the Parcel Select/PRS mail processing cost model: “(1) a machinable destination sectional center facility (DSCF) 3-digit presort mail flow worksheet be added to the model to accommodate negotiated service agreements (NSA), and (2) the results from a 2018 PRS field study be incorporated into the model.” *Id.* Proposal Eight at 2.

The Postal Service states that the price list does not contain published prices for machinable DSCF 3-Digit presort parcels but there are some NSAs that include machinable DSCF 3-Digit presort parcels. *Id.* The Postal Service explains that the addition of a machinable DSCF 3-Digit presort model cost estimate to the mail processing cost model would increase that portion of the DSCF costs, which results in a lower Cost and Revenue Analysis (CRA) proportional adjustment factors. *Id.* at 13. Due to the lower proportional adjustment factor, the mail processing unit cost estimates for all other Parcel Select price categories would decrease roughly one percent. *Id.*

In 2018, the Postal Service conducted a field study to collect PRS-specific input data in order to improve the PRS portion of the cost model. *Id.* at 4. The Postal Service states that PRS mail processing unit cost estimates have historically been developed using proxy input data. *Id.* The Postal Service explains that the proposed treatment of the data collected from the field study is consistent with past rulemaking dockets where the proposals included productivity estimates that were collected manually in the field. *Id.* at 7. In describing the impact of the proposed modification, the Postal Service states that, in total, the PRS mail processing cost model changes would result in a lower proportional CRA adjustment factor which results in decreases to the Full Network

machinable, nonmachinable, and oversize mail processing unit cost estimates. *Id.* at 14.

Transportation cost model. The Postal Service also proposes that the Parcel Select/PRS transportation cost model be modified to incorporate PSLW into the analysis. *Id.* at 11. The Postal Service states that the addition of PSLW to the transportation cost model would have no impact on the Parcel Select/PRS transportation cost-per-cubic-foot estimates. *Id.* at 14.

V. COMMENTS

The Commission received comments from the Public Representative.⁵ No other interested party filed comments.⁶ The Public Representative states that the proposed changes to the model are necessary to reflect current operations and product classifications. PR Comments at 2. She finds that the proposed changes improve the accuracy of the Postal Service's periodic reporting. *Id.* Thus, the Public Representative supports Proposal Eight and recommends its approval. *Id.* at 3.

VI. COMMISSION ANALYSIS

The Commission evaluates proposed changes to analytical principles to ensure that they "improve the quality, accuracy, or completeness of the data or analysis of data" contained in the Postal Service's periodic reports. 39 C.F.R. § 3050.11(a). After reviewing the Petition, Proposal Eight, the supporting documents, the responses to CHIR No. 1 and CHIR No. 2, and the Public Representative's comments, the Commission finds that proposed modifications to the Parcel Select/PRS mail processing and transportation cost models would improve the quality and completeness of the

⁵ Public Representative Comments, October 16, 2019 (PR Comments).

⁶ Although it did not file comments, the Association for Postal Commerce filed a motion for access to non-public Library Reference USPS-RM2019-14/NP1. See Motion of the Association for Postal Commerce for Access to Nonpublic Materials, October 7, 2019. The Commission granted the motion on October 11, 2019. See Order Granting Access to Non-Public Materials and Requiring Further Postal Service Action, October 11, 2019 (Order No. 5274).

Postal Service's costing methodology for these products. Accordingly, the Commission approves Proposal Eight.

A. Mail Processing Cost Model

The Postal Service's proposal to add a machinable DSCF 3-Digit presort mail flow worksheet to the Parcel Select/PRS mail processing cost model to reflect the machinable DSCF 3-Digit presort price categories included in some NSAs is an improvement. Adding the worksheet will better reflect the current price categories and produce more accurate cost estimates that reflect current offerings. The Commission agrees with the Postal Service's description of the impact of these changes. The overall CRA proportional adjustment factor decreased slightly due to an increase in DSCF costs reflecting the addition of a machinable DSCF 3-Digit presort model cost estimate to the mail processing cost model. Petition, Proposal Eight at 13. The mail processing unit cost estimates for all other Parcel Select price categories decreased roughly one percent due to the lower proportional adjustment factor. *Id.* By adding a machinable DSCF 3-Digit presort mail flow worksheet to the model to accommodate NSAs, the model produces cost estimates that better reflect current pricing categories.

The Postal Service's proposal to incorporate the results of the 2018 field study into the model is also an improvement. Historically, PRS mail processing unit cost estimates have been developed using proxy input data. *Id.* at 4. The Postal Service modified the RDU and RSCF processing methods in Quarter 3 of FY 2017. *Id.* The field study collected productivity data and mail processing statistics from designated RDU and RSCF sites. *Id.* As the Postal Service explained, incorporating the results of the field study into the model resulted in a lower proportional CRA adjustment factor, which resulted in decreases to the Full Network machinable, nonmachinable, and oversize mail processing unit cost estimates. *Id.* at 14. Thus, the Commission finds that estimating costs using the results of the PRS field study rather than proxy input

data is an improvement to the mail processing cost model because this data more accurately represents current processing operations.

B. Transportation Cost Model

Since PSLW was reclassified as a competitive product, there have been no PSLW transportation cost estimates presented in ACR dockets. Petition, Proposal Eight at 1. Incorporating PSLW into the Parcel Select/PRS transportation cost model will improve the accuracy of the cost model because it better reflects current operational processes and price categories. Furthermore, the addition of PSLW to the transportation cost model has no impact on the Parcel Select or PRS transportation cost-per-cubic-foot estimates. *Id.* at 14. Thus, the Commission finds that the proposed changes to the transportation cost model should improve the quality and accuracy of the cost estimates produced by the methodology.

VII. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Eight are approved.

By the Commission.

Darcie S. Tokioka
Acting Secretary